



General Assembly

February Session, 2010

***Raised Bill No. 323***

LCO No. 1586

\*01586\_\_\_\_\_CE\_\*

Referred to Committee on Commerce

Introduced by:  
(CE)

***AN ACT CONCERNING ANGEL INVESTORS AND PROGRAMS  
IMPLEMENTED BY CONNECTICUT INNOVATIONS, INCORPORATED.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1       Section 1. (NEW) (*Effective July 1, 2010, and applicable to taxable years*  
2       *commencing on or after January 1, 2010*) (a) As used in this section:

3       (1) "Angel investor" or "investor" means an accredited investor, as  
4       defined by the Securities and Exchange Commission, who may seek  
5       active involvement, such as consulting or mentoring, in a business, but  
6       "angel investor" or "investor" does not include (A) persons controlling  
7       fifty per cent or more of the Connecticut business invested in by the  
8       angel investor or investor, (B) a venture capital company, or (C) any  
9       bank, bank and trust company, insurance company, trust company,  
10      national bank, savings association or building and loan association for  
11      activities that are a part of its normal course of business;

12      (2) "Cash investment" means money or money equivalent in  
13      exchange for qualified securities;

14      (3) "Connecticut business" means any business owned by an

15 individual or a partnership, association or corporation, and domiciled  
16 in Connecticut, or any corporation, even if a wholly-owned subsidiary  
17 of a foreign corporation, that does business primarily in Connecticut,  
18 or does substantially all of such corporation's production in  
19 Connecticut;

20 (4) "Qualified securities" means (A) any form of equity, including a  
21 general or limited partnership interest, common stock, preferred stock,  
22 with or without voting rights, without regard to seniority position and  
23 whether or not convertible into common stock, any form of  
24 subordinate or convertible debt, or both, with warrants or other means  
25 of equity conversion attached, or (B) a debt instrument, including a  
26 note or debenture that is secured or unsecured, subordinated to the  
27 general creditors of the debtor and requiring no payments of principal,  
28 other than principal payments required to be made out of any future  
29 profits of the debtor, for at least a seven-year period after  
30 commencement of such debt instrument's term.

31 (b) There shall be allowed a credit for an angel investor against the  
32 tax imposed under chapter 229 of the general statutes for a cash  
33 investment in the qualified securities of a Connecticut business by such  
34 investor. The credit shall be in an amount equal to twenty-five per cent  
35 of such investor's cash investment, provided no credit shall be greater  
36 than one hundred twenty-five thousand dollars. The credit shall be  
37 taken in the year in which such cash investment is made by the angel  
38 investor.

39 (c) To be a cash investment qualifying for a tax credit pursuant to  
40 this section, such investment shall be in a Connecticut business that (1)  
41 has been approved as a qualified Connecticut business pursuant to  
42 subsection (d) of this section; (2) has had annual gross revenues of less  
43 than five million dollars in the most recent income year of such  
44 business; (3) has fewer than twenty-five employees, more than half of  
45 whom reside in this state; (4) has been operating in this state for less  
46 than ten consecutive years; (5) is primarily owned by the management

47 of the business and their families; and (6) received less than one  
48 million dollars in cash investments eligible for the tax credits provided  
49 by this section. No investor may claim a credit pursuant to this section  
50 for cash investments in Connecticut Innovations, Incorporated.

51 (d) (1) A Connecticut business may apply to Connecticut  
52 Innovations, Incorporated, for approval as a Connecticut business  
53 qualified to receive cash investments eligible for tax credits pursuant to  
54 this section. The application shall include (A) the name of the business  
55 and a copy of the organizational documents of such business, (B) a  
56 business plan, including a description of the business and the  
57 management, product, market and financial plan of the business, (C) a  
58 description of the business's innovative and proprietary technology,  
59 product or service, (D) a statement of the potential economic impact of  
60 the business, including the number, location and types of jobs expected  
61 to be created, (E) a description of the qualified securities to be issued,  
62 the consideration to be paid for the qualified securities, the amount of  
63 any tax credits requested and the earliest year in which such tax credits  
64 may be redeemed, (F) a statement of the amount, timing and projected  
65 use of the proceeds to be raised from the proposed sale of qualified  
66 securities, and (G) such other information as the executive director of  
67 Connecticut Innovations, Incorporated, may require.

68 (2) Said executive director shall, on or before August 1, 2010, and  
69 monthly thereafter, compile a list of approved applications,  
70 categorized by the estimated amount of tax credits and type of  
71 qualified securities offered, submitted by qualified Connecticut  
72 businesses.

73 (e) (1) Any angel investor that intends to provide a cash investment  
74 to a business on such list may apply to the Commissioner of Revenue  
75 Services to reserve a tax credit in the amount indicated by such  
76 investor. The aggregate amount of all tax credits which may be  
77 reserved by the Commissioner of Revenue Services shall not exceed six  
78 million dollars annually for the fiscal years commencing July 1, 2010,

79 to July 1, 2012, inclusive, and shall not exceed three million dollars in  
80 each fiscal year thereafter. No credits may be allowed under this  
81 section on or after July 1, 2020.

82 (2) The amount of the credit allowed to any investor pursuant to this  
83 section shall not exceed the amount of tax due from such investor  
84 under chapter 229 of the general statutes with respect to such taxable  
85 year. Any tax credit not used in the taxable year during which the cash  
86 investment was made may be carried forward for the five immediately  
87 succeeding taxable years until the full credit has been allowed.

88 (3) Any credit allowed pursuant to this section may be sold,  
89 assigned or otherwise transferred, in whole or in part, to one or more  
90 taxpayers, and such taxpayers may sell, assign or otherwise transfer, in  
91 whole or in part, such credit. If an investor sells, assigns or otherwise  
92 transfers a credit to another taxpayer, the transferor and transferee  
93 shall jointly submit written notification of such transfer to the  
94 Commissioner of Revenue Services not later than thirty days after such  
95 transfer. If such transferee sells, assigns or otherwise transfers a credit  
96 under this section to a subsequent transferee, such transferee and such  
97 subsequent transferee shall jointly submit written notification of such  
98 transfer to the Commissioner of Revenue Services not later than thirty  
99 days after such transfer. The notification after each transfer shall  
100 include the credit certificate number, the date of transfer, the amount  
101 of such credit transferred, the tax credit balance before and after the  
102 transfer, the tax identification numbers for both the transferor and the  
103 transferee, and any other information required by the Commissioner of  
104 Revenue Services. Failure to comply with this subdivision shall result  
105 in a disallowance of the tax credit until there is full compliance on the  
106 part of the transferor and the transferee and for a second transfer, on  
107 the part of the transferee, and the subsequent transferee.

108 (f) A review of the effectiveness of the credit shall be conducted by  
109 Connecticut Innovations, Incorporated, by September 1, 2015. Such  
110 review shall be submitted in accordance with the provisions of section

111 11-4a to the joint standing committee of the General Assembly having  
112 cognizance of matters relating to commerce.

113 Sec. 2. Subsection (b) of section 32-35 of the 2010 supplement to the  
114 general statutes is repealed and the following is substituted in lieu  
115 thereof (*Effective October 1, 2010*):

116 (b) The corporation shall be governed by a board of fifteen directors.  
117 Eight members shall be appointed by the Governor, (1) at least six of  
118 whom shall be knowledgeable, and have favorable reputations for  
119 skill, knowledge and experience, in the development of innovative  
120 technology and technological processes including, but not limited to,  
121 expertise in academic research, technology transfer and application,  
122 the development of technological invention and new enterprise  
123 development, and (2) one member shall be a member of an angel  
124 investor group in the state. Three members shall be the Commissioner  
125 of Economic and Community Development, the Commissioner of  
126 Higher Education and the Secretary of the Office of Policy and  
127 Management, who shall serve ex officio and shall have all of the  
128 powers and privileges of a member of the board of directors. Each ex-  
129 officio member may designate his deputy or any member of his staff to  
130 represent him at meetings of the corporation with full power to act and  
131 vote in his behalf. Four members shall be appointed as follows: One by  
132 the president pro tempore of the Senate, one by the minority leader of  
133 the Senate, one by the speaker of the House of Representatives and one  
134 by the minority leader of the House of Representatives. Each member  
135 appointed by the Governor shall serve at the pleasure of the Governor  
136 but no longer than the term of office of the Governor or until the  
137 member's successor is appointed and qualified, whichever is longer.  
138 Each member appointed by a member of the General Assembly shall  
139 serve in accordance with the provisions of section 4-1a. A director shall  
140 be eligible for reappointment. The Governor shall fill any vacancy for  
141 the unexpired term of a member appointed by the Governor. The  
142 appropriate legislative appointing authority shall fill any vacancy for  
143 the unexpired term of a member appointed by such authority.

144       Sec. 3. (NEW) (*Effective October 1, 2010*) (a) There is established a  
 145       Sidecar Investment Fund program to be administered by Connecticut  
 146       Innovations, Incorporated, for the purpose of providing grants to  
 147       match preseed financing or seed financing by angel investors investing  
 148       in companies in the state. "Angel investors" shall have the same  
 149       meaning as in section 1 of this act, and "preseed financing" and "seed  
 150       financing" shall have the same meanings as in section 32-34 of the  
 151       general statutes.

152       (b) In support of the program established in subsection (a) of this  
 153       section, the corporation shall establish criteria for matching such  
 154       financing and shall develop and implement a plan to market the  
 155       program.

156       (c) The board of the corporation shall review and approve each  
 157       application for matching grants for such financing.

158       (d) The grants authorized pursuant to this section shall be allocated  
 159       as follows: (1) Ninety per cent of the investments shall match angel  
 160       investment funding; and (2) not more than ten per cent shall be set  
 161       aside to invest in state university student entrepreneurs receiving  
 162       angel investment funding. Not more than a fifty per cent match, up to  
 163       two hundred fifty thousand dollars, shall be invested in any single  
 164       company.

165       (e) The corporation shall adopt procedures, pursuant to section 1-  
 166       121 of the general statutes, to implement the provisions of this section.

167       Sec. 4. Section 32-41w of the general statutes is repealed and the  
 168       following is substituted in lieu thereof (*Effective October 1, 2010*):

169       (a) There is established an early-stage venture capital program to be  
 170       administered by Connecticut Innovations, Incorporated, to provide  
 171       preseed financing, seed financing, start-up financing, early or first-  
 172       stage financing and expansion financing to companies in the state and  
 173       to provide matching funds for the federal small business innovation

174 research program, as defined in subdivision (4) of section 32-344.

175 (b) In support of the program established in subsection (a) of this  
176 section, the corporation and the Small Business Innovation Research  
177 Office, established pursuant to subdivision (41) of section 32-39, as  
178 amended by this act, shall establish criteria for awarding such  
179 financing and shall develop and implement a plan to market the  
180 program.

181 (c) The board of the corporation shall review and approve each  
182 application for such financing.

183 (d) Funds provided for this section shall be allocated as follows: (1)  
184 Not less than five per cent for preseed financing; (2) not less than ten  
185 per cent for seed financing; (3) not less than ten per cent for start-up  
186 financing; (4) not less than fifteen per cent for early or first stage  
187 financing; [and] (5) not less than [forty] thirty per cent and not more  
188 than [sixty] fifty per cent on expansion financing, as such terms are  
189 defined in section 32-34; and (6) not less than ten per cent on matching  
190 grants of fifty per cent, not to exceed fifty thousand dollars per grant,  
191 for the small business innovation research program. The corporation  
192 shall use not more than three per cent of such funds for administration  
193 and marketing of such financial aid.

194 (e) The corporation shall adopt procedures, pursuant to section 1-  
195 121, to implement the provisions of this section.

196 Sec. 5. Section 32-39 of the 2010 supplement to the general statutes is  
197 repealed and the following is substituted in lieu thereof (*Effective*  
198 *October 1, 2010*):

199 The purposes of the corporation shall be to stimulate and encourage  
200 the research and development of new technologies, businesses and  
201 products, to encourage the creation and transfer of new technologies,  
202 to assist existing businesses in adopting current and innovative  
203 technological processes, to stimulate and provide services to industry

204 that will advance the adoption and utilization of technology, to  
205 achieve improvements in the quality of products and services, to  
206 stimulate and encourage the development and operation of new and  
207 existing science parks and incubator facilities, and to promote science,  
208 engineering, mathematics and other disciplines that are essential to the  
209 development and application of technology within Connecticut by the  
210 infusion of financial aid for research, invention and innovation in  
211 situations in which such financial aid would not otherwise be  
212 reasonably available from commercial or other sources, and for these  
213 purposes the corporation shall have the following powers:

214 (1) To have perpetual succession as a body corporate and to adopt  
215 bylaws, policies and procedures for the regulation of its affairs and  
216 conduct of its businesses as provided in section 32-36;

217 (2) To enter into venture agreements with persons, upon such terms  
218 and on such conditions as are consistent with the purposes of this  
219 chapter, for the advancement of financial aid to such persons for the  
220 research, development and application of specific technologies,  
221 products, procedures, services and techniques, to be developed and  
222 produced in this state, and to condition such agreements upon  
223 contractual assurances that the benefits of increasing or maintaining  
224 employment and tax revenues shall remain in this state and shall  
225 accrue to it;

226 (3) To solicit, receive and accept aid, grants or contributions from  
227 any source of money, property or labor or other things of value, to be  
228 held, used and applied to carry out the purposes of this chapter,  
229 subject to the conditions upon which such grants and contributions  
230 may be made, including but not limited to, gifts or grants from any  
231 department or agency of the United States or the state;

232 (4) To invest in, acquire, lease, purchase, own, manage, hold and  
233 dispose of real property and lease, convey or deal in or enter into  
234 agreements with respect to such property on any terms necessary or  
235 incidental to the carrying out of these purposes; provided, however,

236 that all such acquisitions of real property for the corporation's own use  
237 with amounts appropriated by the state to the corporation or with the  
238 proceeds of bonds supported by the full faith and credit of the state  
239 shall be subject to the approval of the Secretary of the Office of Policy  
240 and Management and the provisions of section 4b-23;

241 (5) To borrow money or to guarantee a return to the investors in or  
242 lenders to any capital initiative, to the extent permitted under this  
243 chapter;

244 (6) To hold patents, copyrights, trademarks, marketing rights,  
245 licenses, or any other evidences of protection or exclusivity as to any  
246 products as defined herein, issued under the laws of the United States  
247 or any state or any nation;

248 (7) To employ such assistants, agents and other employees as may  
249 be necessary or desirable, which employees shall be exempt from the  
250 classified service and shall not be employees, as defined in subsection  
251 (b) of section 5-270; establish all necessary or appropriate personnel  
252 practices and policies, including those relating to hiring, promotion,  
253 compensation, retirement and collective bargaining, which need not be  
254 in accordance with chapter 68, and the corporation shall not be an  
255 employer as defined in subsection (a) of section 5-270; and engage  
256 consultants, attorneys and appraisers as may be necessary or desirable  
257 to carry out its purposes in accordance with this chapter;

258 (8) To make and enter into all contracts and agreements necessary or  
259 incidental to the performance of its duties and the execution of its  
260 powers under this chapter;

261 (9) To sue and be sued, plead and be impleaded, adopt a seal and  
262 alter the same at pleasure;

263 (10) With the approval of the State Treasurer, to invest any funds  
264 not needed for immediate use or disbursement, including any funds  
265 held in reserve, in obligations issued or guaranteed by the United

266 States of America or the state of Connecticut and in other obligations  
267 which are legal investments for retirement funds in this state;

268 (11) To procure insurance against any loss in connection with its  
269 property and other assets in such amounts and from such insurers as it  
270 deems desirable;

271 (12) To the extent permitted under its contract with other persons, to  
272 consent to any termination, modification, forgiveness or other change  
273 of any term of any contractual right, payment, royalty, contract or  
274 agreement of any kind to which the corporation is a party;

275 (13) To do anything necessary and convenient to render the bonds  
276 to be issued under section 32-41 more marketable;

277 (14) To acquire, lease, purchase, own, manage, hold and dispose of  
278 personal property, and lease, convey or deal in or enter into  
279 agreements with respect to such property on any terms necessary or  
280 incidental to the carrying out of these purposes;

281 (15) In connection with any application for assistance under this  
282 chapter, or commitments therefor, to make and collect such fees as the  
283 corporation shall determine to be reasonable;

284 (16) To enter into venture agreements with persons, upon such  
285 terms and conditions as are consistent with the purposes of this  
286 chapter to provide financial aid to such persons for the marketing of  
287 new and innovative services based on the use of a specific technology,  
288 product, device, technique, service or process;

289 (17) To enter into limited partnerships or other contractual  
290 arrangements with private and public sector entities as the corporation  
291 deems necessary to provide financial aid which shall be used to make  
292 investments of seed venture capital in companies based in or  
293 relocating to the state in a manner which shall foster additional capital  
294 investment, the establishment of new businesses, the creation of new  
295 jobs and additional commercially-oriented research and development

296 activity. The repayment of such financial aid shall be structured in  
297 such manner as the corporation deems will best encourage private  
298 sector participation in such limited partnerships or other  
299 arrangements. The board of directors, executive director, officers and  
300 staff of the corporation may serve as members of any advisory or other  
301 board which may be established to carry out the purposes of this  
302 subdivision;

303 (18) To account for and audit funds of the corporation and funds of  
304 any recipients of financial aid from the corporation;

305 (19) To advise the Governor, the General Assembly, the  
306 Commissioner of Economic and Community Development and the  
307 Commissioner of Higher Education on matters relating to science,  
308 engineering and technology which may have an impact on state  
309 policies, programs, employers and residents, and on job creation and  
310 retention;

311 (20) To promote technology-based development in the state;

312 (21) To encourage and promote the establishment of and, within  
313 available resources, to provide financial aid to advanced technology  
314 centers;

315 (22) To maintain an inventory of data and information concerning  
316 state and federal programs which are related to the purposes of this  
317 chapter and to serve as a clearinghouse and referral service for such  
318 data and information;

319 (23) To conduct and encourage research and studies relating to  
320 technological development;

321 (24) To provide technical or other assistance and, within available  
322 resources, to provide financial aid to the Connecticut Academy of  
323 Science and Engineering, Incorporated, in order to further the  
324 purposes of this chapter;

325       (25) To recommend a science and technology agenda for the state  
326       that will promote the formation of public and private partnerships for  
327       the purpose of stimulating research, new business formation and  
328       growth and job creation;

329       (26) To encourage and provide technical assistance and, within  
330       available resources, to provide financial aid to existing manufacturers  
331       and other businesses in the process of adopting innovative technology  
332       and new state-of-the-art processes and techniques;

333       (27) To recommend state goals for technological development and  
334       to establish policies and strategies for developing and assisting  
335       technology-based companies and for attracting such companies to the  
336       state;

337       (28) To promote and encourage and, within available resources, to  
338       provide financial aid for the establishment, maintenance and operation  
339       of incubator facilities;

340       (29) To promote and encourage the coordination of public and  
341       private resources and activities within the state in order to assist  
342       technology-based entrepreneurs and business enterprises;

343       (30) To provide services to industry that will stimulate and advance  
344       the adoption and utilization of technology and achieve improvements  
345       in the quality of products and services;

346       (31) To promote science, engineering, mathematics and other  
347       disciplines that are essential to the development and application of  
348       technology;

349       (32) To coordinate its efforts with existing business outreach centers,  
350       as described in section 32-9qq;

351       (33) To develop a marketing campaign that promotes the state as a  
352       place of innovation;

353        [(33)] (34) To do all acts and things necessary and convenient to  
354        carry out the purposes of this chapter;

355        [(34)] (35) To accept from the department: (A) Financial assistance,  
356        (B) revenues or the right to receive revenues with respect to any  
357        program under the supervision of the department, and (C) loan assets  
358        or equity interests in connection with any program under the  
359        supervision of the department; to make advances to and reimburse the  
360        department for any expenses incurred or to be incurred by it in the  
361        delivery of such assistance, revenues, rights, assets, or interests; to  
362        enter into agreements for the delivery of services by the corporation, in  
363        consultation with the department, the Connecticut Housing Finance  
364        Authority and the Connecticut Development Authority, to third  
365        parties which agreements may include provisions for payment by the  
366        department to the corporation for the delivery of such services; and to  
367        enter into agreements with the department or with the Connecticut  
368        Development Authority or Connecticut Housing Finance Authority for  
369        the sharing of assistants, agents and other consultants, professionals  
370        and employees, and facilities and other real and personal property  
371        used in the conduct of the corporation's affairs;

372        [(35)] (36) To transfer to the department: (A) Financial assistance, (B)  
373        revenues or the right to receive revenues with respect to any program  
374        under the supervision of the corporation, and (C) loan assets or equity  
375        interests in connection with any program under the supervision of the  
376        corporation, provided the transfer of such financial assistance,  
377        revenues, rights, assets or interests is determined by the corporation to  
378        be practicable, within the constraints and not inconsistent with the  
379        fiduciary obligations of the corporation imposed upon or established  
380        upon the corporation by any provision of the general statutes, the  
381        corporation's bond resolutions or any other agreement or contract of  
382        the corporation and to have no adverse effect on the tax-exempt status  
383        of any bonds of the state;

384        [(36)] (37) With respect to any capital initiative, to create, with one

385 or more persons, one or more affiliates and to provide, directly or  
386 indirectly, for the contribution of capital to any such affiliate, each such  
387 affiliate being expressly authorized to exercise on such affiliate's own  
388 behalf all powers which the corporation may exercise under this  
389 section, in addition to such other powers provided to it by law;

390 [(37)] (38) To provide financial aid to enable biotechnology and  
391 other technology companies to lease, acquire, construct, maintain,  
392 repair, replace or otherwise obtain and maintain production, testing,  
393 research, development, manufacturing, laboratory and related and  
394 other facilities, improvements and equipment;

395 [(38)] (39) To provide financial aid to persons developing smart  
396 buildings, as defined in section 32-23d, incubator facilities or other  
397 information technology intensive office and laboratory space;

398 [(39)] (40) To administer the Renewable Energy Investment Fund  
399 established pursuant to section 16-245n;

400 [(40)] (41) To provide financial aid to persons developing or  
401 constructing the basic buildings, facilities or installations needed for  
402 the functioning of the media and motion picture industry in this state;

403 [(41)] (42) To coordinate the development and implementation of  
404 strategies regarding technology-based talent and innovation among  
405 state and quasi-public agencies, including the creation and  
406 administration of the Connecticut Small Business Innovation Research  
407 Office to act as a centralized clearinghouse and provide technical  
408 assistance to applicants in developing small business innovation  
409 research programs in conformity with the federal program established  
410 pursuant to the Small Business Research and Development  
411 Enhancement Act of 1992, P.L. 102-564, as amended, and other  
412 proposals;

413 (43) To establish the Sidecar Investment program, as established in  
414 section 3 of this act, and provide moneys to said program from the

415 Connecticut Innovations, Incorporated, fund established pursuant to  
416 section 32-41a.

417 Sec. 6. Subsection (h) of section 32-35 of the 2010 supplement to the  
418 general statutes is repealed and the following is substituted in lieu  
419 thereof (*Effective October 1, 2010*):

420 (h) The corporation shall provide funding for the operation of the  
421 Connecticut Small Business Innovation Research Office in accordance  
422 with subdivision [(41)] (42) of section 32-39, as amended by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2010, and applicable to taxable years commencing on or after January 1, 2010</i>	New section
Sec. 2	<i>October 1, 2010</i>	32-35(b)
Sec. 3	<i>October 1, 2010</i>	New section
Sec. 4	<i>October 1, 2010</i>	32-41w
Sec. 5	<i>October 1, 2010</i>	32-39
Sec. 6	<i>October 1, 2010</i>	32-35(h)

**Statement of Purpose:**

To provide tax credits to angel investors and modify the allocation of funds by Connecticut Innovations, Incorporated.

*[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]*